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# FISCAL FOCUS

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## FUNDING PUBLIC TRANSPORTATION

### LOCAL BUS OPERATING ASSISTANCE AND CTF REVENUE

Prepared by:  
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January 2000



Mitchell E. Bean, Interim Director

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January 2000

TO: Members of the House of Representatives

Public Act 51 of 1951 limits state operating assistance for public transit agencies to 50% of eligible operating expense for urban transit systems and 60% of eligible operating expense for non-urban systems. The FY 1999-2000 appropriation for local bus operating assistance is within those statutory limits.

Michigan's public transit agencies have expressed concern that the appropriation for local bus operating assistance has decreased over the last two years. In order for state local bus operating assistance to reach the statutory 50% and 60% ceilings for FY 1999-2000, the current \$144.6 million appropriation would have to be increased by \$44.0 million to \$188.6 million. Michigan public transit agencies argue that the statutory 50% and 60% limits should be viewed as goals, and that state funding should be at no less than the 50% and 60% levels.

This **Fiscal Focus** will:

- ' Identify the revenue sources which fund the Local Bus Operating line item in the state Transportation budget,
- ' Review options available to the Legislature for increasing state funding for local bus operating assistance (should it choose to do so),
- ' Examine alternatives to increased state funding for local bus operating, and
- ' Consider the relationship between alternative sources of funding and the current local bus operating distribution formula.

William E. Hamilton, Fiscal Analyst, authored this report; Jeanne Dee, Administrative Assistant, prepared the report for publication. We appreciate the assistance of HFA staff Hank Prince, Associate Director, and Barb Endres, Budget Assistant, who reviewed the initial draft and provided suggestions.

This report was prepared by the House Fiscal Agency to provide information to assist the Legislature in its deliberations. Please call if you have questions regarding this **Fiscal Focus**.

Mitchell E. Bean  
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# INTRODUCTION

The FY 1999-2000 Transportation budget includes \$144.6 million for the Local Bus Operating line item. The budget also includes a separate \$6 million contingent line item, Local Bus Operating: Unreserved CTF Balance, which may be expended only if there are sufficient funds available in the Comprehensive Transportation Fund (CTF) to support the appropriation.<sup>1</sup> The Local Bus Operating line item is distributed by formula as specified in Public Act 51 of 1951 (Act 51) to 72 public transit agencies in Michigan.<sup>2</sup>

Act 51 provides for local bus operating assistance as follows:

- ' Up to 50% of eligible operating expense for public transportation services in urbanized areas, and
- ' Up to 60% of eligible operating expense for public transportation services in non-urbanized areas.

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***To the extent that state operating assistance falls below the 50% / 60% reimbursement percentages, public transit agencies consider the line item to be underfunded.***

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Act 51 defines urbanized areas as having a Michigan population greater than 100,000 and non-urbanized areas as having a Michigan population less than or equal to 100,000.<sup>3</sup>

The FY 1999-2000 appropriation for local bus operating assistance is within the statutory limits. There is, however, a disparity between the language of Act 51 and the position of Michigan public transit agencies. While the language of Act 51 sets limits on state operating assistance at 50% and 60% of eligible operating expense, Michigan public transit agencies argue that these statutory limits should be goals, and that state funding should be at no less than the 50% and 60% levels. To the extent that state operating assistance falls

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<sup>1</sup> The decision on the availability of this contingent \$6 million appropriation will be made jointly by Michigan Department of Transportation (MDOT), the House and Senate Fiscal Agencies, and the State Budget Office early in calendar year 2000 after the Consensus Revenue Estimating Conference.

<sup>2</sup> The 72 Michigan public transit agencies range from metropolitan systems such as DDOT and SMART in southeast Michigan, and large urban systems such as CATA in Lansing and GRATA in Grand Rapids, to small non-urban systems such as those in Grand Haven, Ludington, or Manistee County. See Appendix I for a list of the 72 public transit agencies in Michigan and the estimated state operating assistance distribution for FY 1999-2000.

<sup>3</sup> Some public transit agencies provide service both in urbanized areas and non-urbanized areas. In practice, the recipients of local bus operating assistance are generally referred to as either "urban systems" or "non-urban systems," and we will use these terms throughout the balance of this text.

below these reimbursement percentages, public transit agencies consider the line item to be underfunded.

Michigan’s public transit agencies have also expressed concern that the FY 1999-2000 local bus operating appropriation of \$144.6 million is \$10.4 million less than the FY 1998-99 appropriation (a 6.7% reduction) and is \$17.6 million less than the FY 1997-98 appropriation (a 10.8% reduction). See **Table 1** and **Figure 1**.

The total appropriation for local bus operating has decreased over the last two years while transit agency eligible operating expenses have continued to increase. As a result, the state’s share of eligible operating assistance has fallen from FY 1997-98 levels of 49% for urban systems and 59% for non-urban systems to a FY 1999-2000 estimate of 38% and 46% for urban and non-urban systems, respectively.<sup>4</sup> See **Table 2**. In order for state local bus operating assistance to reach the 50% and 60% statutory ceilings for FY 1999-2000, the current \$144.6 million appropriation would have to be increased by \$44.0 million to \$188.6 million. See **Table 3**.

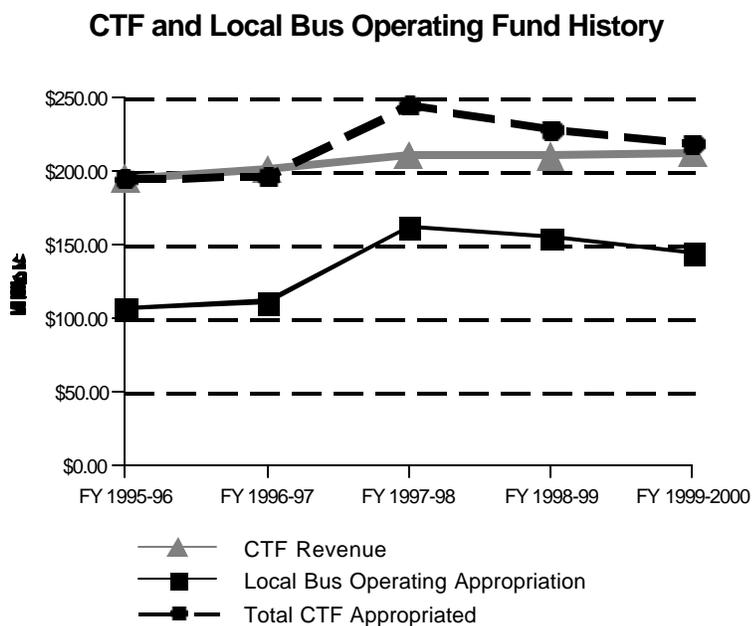
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***In order for state local bus operating assistance to reach the 50% and 60% statutory ceilings for FY 1999-2000, the current \$144.6 million appropriation would have to be increased by \$44.0 million.***

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Although the FY 1999-2000 appropriation of \$144.6 million for local bus operating is less than the previous two fiscal years, it is still substantially greater than just three years

ago. As shown in **Table 1**, the FY 1999-2000 appropriation of \$144.6 million is \$24.5 million (20%) greater than the FY 1996-97 appropriation of \$120.1 million.



**Figure 1**

Is the public transit funding glass half-full or half-empty? Why has the appropriation for local bus operating shown so much variance over the last several years? The following provides a review of local bus operating appropriations as well as related CTF revenues — information that can be used to assist the

Legislature in its deliberations.

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<sup>4</sup> Transit agency operating expenses not reimbursed from state operating assistance must be covered by a combination of farebox receipts, local funding, and, for non-urban systems only, federal operating assistance.

Source: *Michigan Department of Transportation*

**Table 1**

**Comprehensive Transportation Fund Revenue and Local Bus Operating Appropriations**

|  | 1995-96<br>Actual    | 1996-97<br>Actual    | 1997-98<br>Actual    | 1998-99<br>Appropriated | 1999-2000<br>Appropriated |
|--|----------------------|----------------------|----------------------|-------------------------|---------------------------|
| <b>CTF Revenue History and Estimates</b>                 |                      |                      |                      |                         |                           |
| Vehicle-Related Sales Tax                                | \$58,413,786         | \$58,826,258         | \$60,309,659         | \$65,600,000            | \$60,000,000              |
| Transfer from MTF  | 129,004,489          | 132,187,287          | 145,274,767          | 144,591,200             | 151,057,800               |
| Other Miscellaneous                                      | 7,829,161            | 5,408,122            | 5,262,325            | 150,000                 | 1,265,000                 |
| <b>Total CTF Revenue<sup>1</sup></b>                     | <b>\$195,247,436</b> | <b>\$196,421,667</b> | <b>\$210,846,751</b> | <b>\$210,341,200</b>    | <b>\$212,322,800</b>      |
| Appropriated CTF<br>Fund Balance <sup>2,3,4</sup>        |                      | 5,000,000            | 33,832,400           | 17,753,000              | 6,000,000                 |
| <b>Total Appropriated CTF</b>                            | <b>\$195,247,436</b> | <b>\$201,421,667</b> | <b>\$244,679,151</b> | <b>\$228,094,200</b>    | <b>\$218,322,800</b>      |
| <b>Local Bus Operating<br/>Appropriation<sup>5</sup></b> |                      |                      |                      |                         |                           |
|  | \$107,000,400        | \$120,083,726        | \$162,134,800        | \$154,950,200           | \$144,576,300             |
| Difference from Prior Fiscal                             | \$7,298,500          | \$13,083,326         | \$42,051,074         | (\$7,184,600)           | (\$10,373,900)            |
| Local Bus Operating/ Total                               | 54.80%               | 59.62%               | 66.26%               | 67.93%                  | 66.22%                    |

1. CTF revenue as shown on this table does not include funds from rail or bus revolving funds. The FY 1998-99 and FY 1999-2000 appropriated revenue amounts shown are based on original Treasury Office of Revenue and Tax Analysis estimates.

2. The total appropriated from the CTF fund balance in FY 1997-98 was \$58,832,400, of which \$25,000,000 was appropriated for road and bridge programs.

3. This table does not include the contingent FY 1999-2000 appropriation of \$6 million which may be expended only if sufficient funds are found to be available.

4. The amounts shown as appropriated from the CTF fund balance are based on MDOT's Bureau of Finance "Budget Book" estimates. The actual change in the unreserved fund balance is shown in Table 4.

5. FY 1996-97 includes Public Transportation Development discretionary funds.

Source: Michigan Department of Transportation

**Table 2**

**Local Bus Operating Appropriations State Reimbursement Percentage**

|  | 1995-96<br>Actual | 1996-97<br>Actual | 1997-98<br>Actual | 1998-99*      | 1999-2000*    |
|--|-------------------|-------------------|-------------------|---------------|---------------|
| <b>Local Bus Operating<br/>Appropriation</b> | \$107,000,400     | \$120,083,726     | \$162,134,800     | \$154,950,200 | \$144,576,300 |
| <b>Urban Systems</b>                         |                   |                   |                   |               |               |
| State Reimbursement                          | \$88,418,089      | \$99,266,003      | \$131,306,885     | \$124,342,172 | \$114,912,117 |
| Eligible Operating Expense                   | \$229,519,037     | \$247,972,754     | \$268,346,971     | \$288,017,753 | \$299,776,550 |
| % Reimbursed by State                        | 38.52%            | 40.03%            | 48.93%            | 43.17%        | 38.33%        |
| <b>Non-Urban Systems</b>                     |                   |                   |                   |               |               |
| State Reimbursement                          | \$15,970,913      | \$20,817,723      | \$30,827,914      | \$30,608,028  | \$29,664,184  |
| Eligible Operating Expense                   | \$41,414,393      | \$42,924,018      | \$52,533,040      | \$59,081,962  | \$64,488,605  |
| % Reimbursed by State                        | 39.56%            | 48.50%            | 58.68%            | 51.81%        | 46.00%        |

\*FY 1998-99 and FY 1999-2000 data based on budget estimates.

Source: Michigan Department of Transportation and HFA calculations

**Table 3****Local Bus Operating Appropriations FY 1999-2000 Estimated Reimbursement**

|  | Urban Systems | Non-Urban Systems | Total         |
|--|---------------|-------------------|---------------|
| Eligible Operating Expense (Budget Estimates)    | \$299,776,550 | \$64,488,605      | \$364,265,155 |
| Statutory Limit Reimbursement %                  | 50.00%        | 60.00%            |               |
| Reimbursement @ 50% and 60%                      | \$149,888,277 | \$38,693,162      | \$188,581,439 |
| Estimated Reimbursement % Based on Appropriation | 38.33%        | 46.00%            |               |
| Estimated State Reimbursement                    | \$114,912,117 | \$29,664,184      | \$144,576,301 |
| Amount Below Statutory 50% / 60% Limits          | \$34,976,160  | \$9,028,978       | \$44,005,138  |

This table shows the additional appropriation that would be necessary to fund the local bus operating line item at the 50% and 60% statutory limits.

*Source: Michigan Department of Transportation and HFA calculations*

# LOCAL BUS OPERATING ASSISTANCE AND CTF FUND BALANCE

The Local Bus Operating line item is funded exclusively from the Comprehensive Transportation Fund (CTF) — a state special revenue (restricted) fund dedicated for public transportation purposes. To a large extent, the amount appropriated for local bus operating assistance depends on the amount of CTF revenue available. Act 51, which governs the appropriation of CTF revenue, establishes local bus operating assistance as the CTF's third funding priority after debt service on CTF bonds and CTF administrative costs. Since FY 1997-98, local bus operating assistance has represented approximately two-thirds of annual CTF appropriations.

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*To a large extent, the amount appropriated for local bus operating assistance depends on the amount of CTF revenue available.*

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The CTF has two primary revenue sources: a) a statutory distribution, effectively 8%, of Michigan Transportation Fund (MTF) revenue; and b) a 4.65% share of the sales tax on motor vehicle related sales (fuels, motor vehicles, and parts and accessories). These two revenue sources have shown consistent, although modest, growth over the last six years. All things being equal, the Local Bus Operating line item could be expected to track CTF revenue growth. However, as **Table 1** shows, recent Transportation appropriations have been based not only on estimated current-year revenue, but also on the appropriation of significant amounts from the CTF fund balance.

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*The wide variance in the local bus operating appropriation over the last five fiscal years is due to the appropriation of the CTF fund balance.*

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The CTF balance increased over a number of years as the result of higher-than-anticipated revenue and unspent appropriations lapsing back into the fund.<sup>5</sup> At the end of the 1995-96 fiscal year, the unreserved CTF fund balance was more than \$68 million.

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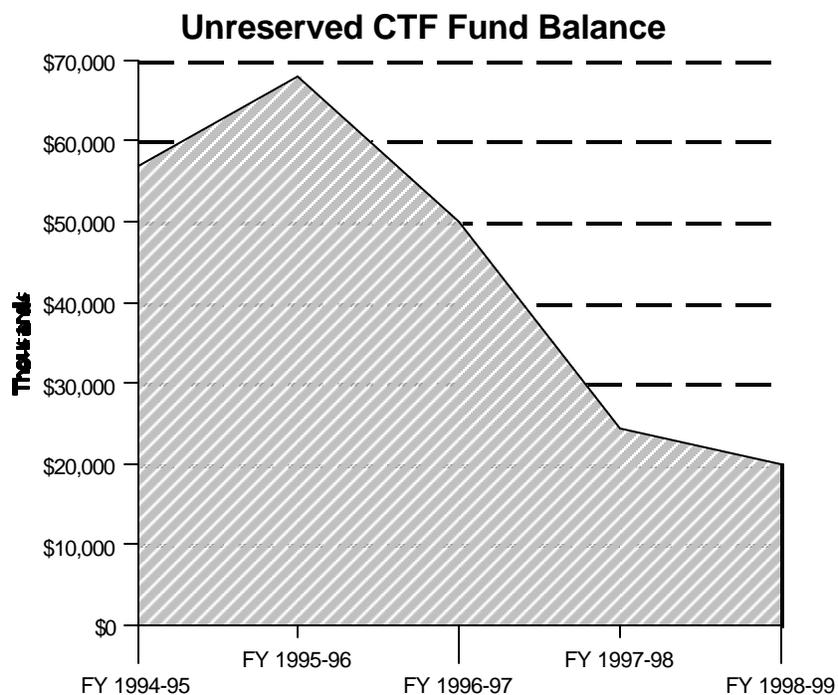
<sup>5</sup> Part of the increase in the CTF fund balance prior to FY 1996-97 was a result of the "growth cap." The growth cap limited increases in transit agency operating assistance from one year to the next to the percentage increase in CTF revenues appropriated for local bus operating. Because some agencies hit the growth cap, some local bus operating funds lapsed back into the CTF fund balance. Since PA 79 of 1997 eliminated the growth cap, the entire local bus operating appropriation is distributed to transit agencies — there are no longer lapses from this line item.

In FY 1997-98, the Legislature appropriated \$58.8 million from the CTF fund balance: \$33.8 million for local bus operating assistance, and \$25 million for road and bridge programs. In FY 1998-99 an additional \$17.8 million was appropriated from the CTF fund balance for public transportation programs including local bus operating. These appropriations from the CTF fund balance in the 1997-98 and 1998-99 fiscal years depleted the CTF fund balance "savings account."

The enacted FY 1999-2000 Transportation budget (PA 136 of 1999) is based on appropriation of an additional \$6 million from the estimated CTF fund balance — not counting the contingent \$6 million appropriated in the Local Bus Operating: Unreserved CTF Balance line item. It is unlikely that there will be a sufficient balance in the CTF after the 1999-2000 fiscal year to allow for large appropriations from the fund balance. In the future, transit agencies may have to rely on current-year revenue sources to maintain public transportation programs.

Figure 2 and Table 4 show a five-year history of the unreserved CTF fund balance.

Figure 2



Source: Comprehensive Annual Financial Report and MDOT estimate for FY 1998-99

Table 4

Changes in CTF Unreserved Fund Balance

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|                       | <u>Unreserved Fund<br/>Balance</u> | <u>Change from Prior Fiscal Year</u> |
|-----------------------|------------------------------------|--------------------------------------|
| 9/30/95               | \$56,998,000                       |                                      |
| 9/30/96               | \$68,048,000                       | \$11,050,000                         |
| 9/30/97               | \$50,000,000                       | (\$18,048,000)                       |
| 9/30/98               | \$24,302,000                       | (\$25,698,000)                       |
| 9/30/99<br>(estimate) | \$20,000,000                       | (\$4,302,000)                        |

Source: State of Michigan Certified Annual Financial Reports (except for 9/30/99, which was based on MDOT Bureau of Finance estimate).



# CTF REVENUE SOURCES

This section identifies Comprehensive Transportation (CTF) revenue sources, reviews options available to the Legislature should it choose to increase CTF revenue, and describes how methods for increasing CTF revenue could impact other state funds and programs.

As noted on page 5, the CTF has two primary revenue sources. These sources, and fund distributions, are shown in **Figure 3** (next page).

## ***CTF Share of MTF Revenue***

Article IX, Section 9 of the Michigan Constitution requires that motor fuel taxes and vehicle license and registration fees — less collection expense — be used for transportation purposes. The Constitution further provides that not more than 10% of motor fuel taxes and vehicle registration fees may be used for public transportation programs.

The Michigan Transportation Fund (MTF) is the primary collection/distribution fund for state-generated, restricted transportation revenues. Act 51 provides that 10% of MTF revenues — after deductions for administration, debt service, and other statutory earmarks — be allocated to the CTF. The most significant of these statutory earmarks is the dedication of 4 cents of the 19 cents per gallon gasoline excise tax — \$195.6 million in FY 1999-2000 — to road and bridge programs. As a result of these statutory deductions, the effective allocation percentage to the CTF is approximately 8% of MTF revenue.

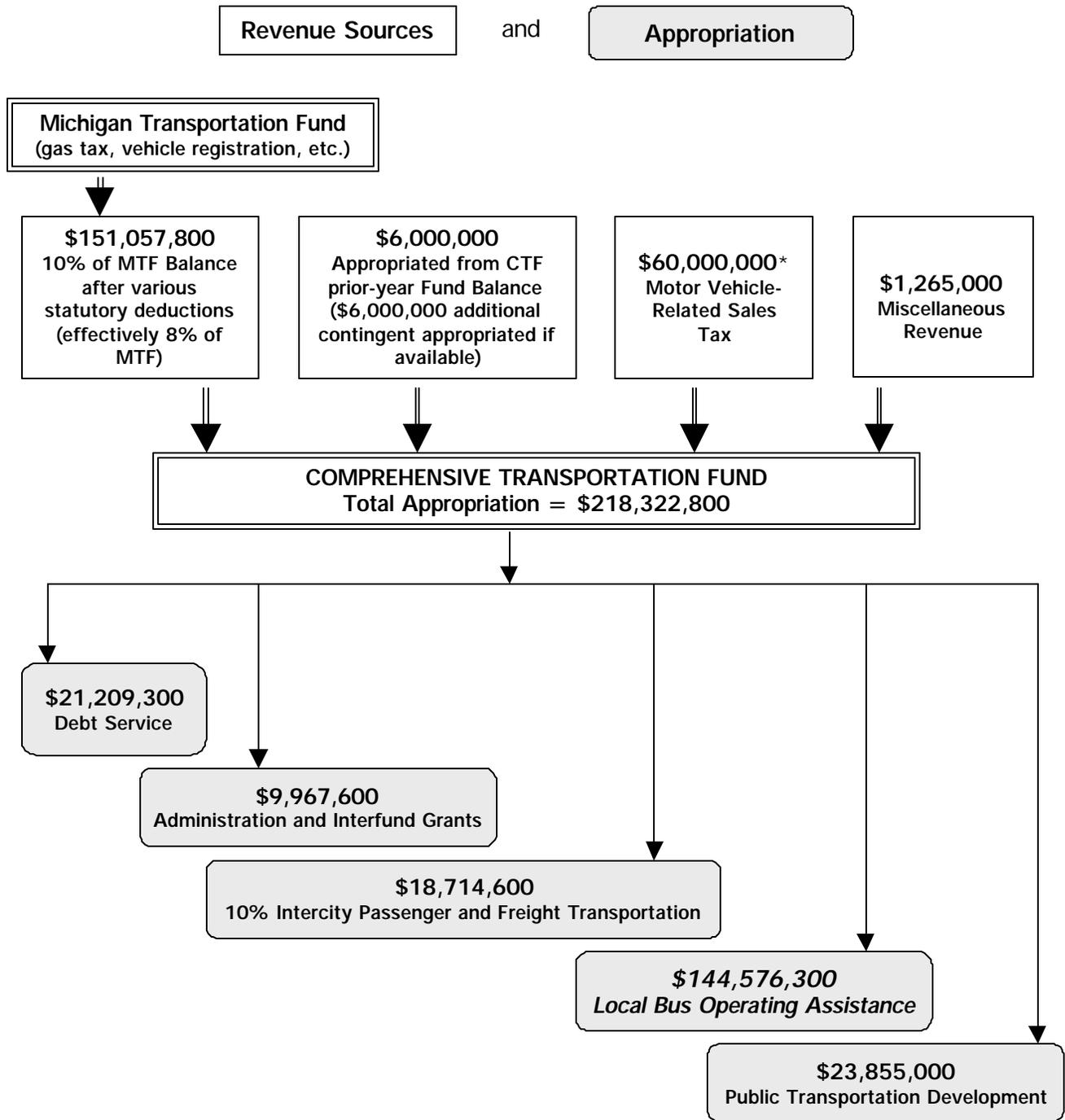
The MTF transfer to the CTF is estimated to be \$151.1 million in FY 1999-2000 and represents approximately 70% of CTF revenues. If Act 51 were amended to provide for the CTF to receive its 10% share of MTF revenues *prior to other statutory deductions*, the CTF would receive an additional \$31.6 million based on current FY 1999-2000 budget estimates. However, this additional revenue for the CTF would come at the expense of state and local road and bridge programs, which are also funded from the MTF distribution.

## ***Motor Vehicle Related Sales Tax***

Article IX, Section 9 of the Michigan Constitution provides that not more than 25% of the state general sales tax on motor vehicle related products (motor fuels, motor vehicle sales, cars and trucks, and motor vehicle parts and accessories) shall be used for comprehensive transportation purposes.

Figure 3

COMPREHENSIVE TRANSPORTATION FUND: FY 1999-2000



\*\$60,000,000 was Michigan Department of Treasury's revenue estimate used for FY 1999-2000 appropriations; estimate was revised to \$63,241,000 on November 5, 1999.

Section 25 of the General Sales Tax Act (MCL 205.75) provides that not less than 27.9% of 25% of the sales tax collected at 4% on the sales of motor vehicles, motor fuels, and motor vehicle parts and accessories is to be credited to the CTF. The effective rate for this allocation is 4.65% of the sales tax on motor vehicle related sales — for every \$1.00 of sales tax collected on automotive products, 0.0465 cents is credited to the CTF (example: a \$1,000 motor vehicle related sale generates \$60 in sales tax; this provides a \$2.79 credit to the CTF). The current statutory distribution of 4.65% of the motor vehicle related sales tax to the CTF is below the 25% constitutional limitation. Allocation of motor vehicle related sales tax is shown in **Figure 4**.

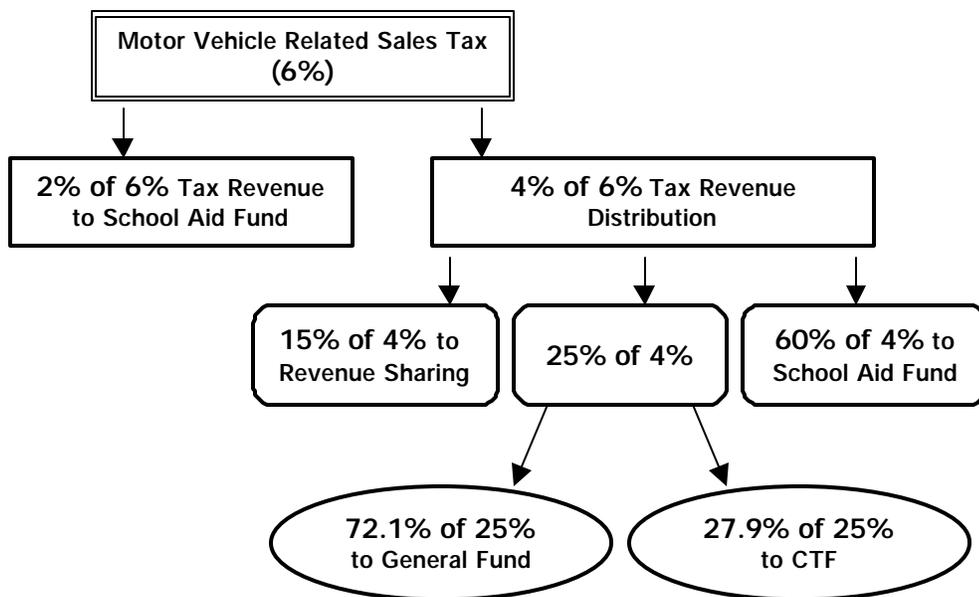
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*The current statutory distribution of 4.65% of the motor vehicle related sales tax to the CTF is below the 25% constitutional limitation.*

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**Figure 4**

**MOTOR VEHICLE RELATED SALES TAX**



Revenue from the motor vehicle related sales tax has ranged from \$55.6 million in FY 1994-95 to \$60.3 million in FY 1997-98. Current Michigan Department of Treasury

estimates are \$63.2 million for FY 1998-99 and \$63.4 million for FY 1999-2000.<sup>6</sup> The growth of this revenue source has been relatively modest — particularly in relation to the strong economy and in comparison with the growth of General Fund revenue sources.

The relatively slow growth in the amount of motor vehicle related sales tax credited to the CTF is due to several factors: steady or declining gasoline prices, an increased use of leasing versus buying new cars and trucks, and difficulty in identifying motor vehicle related sales.

### **Steady or Declining Gasoline Prices**

All things being equal, a decline in gasoline prices would cause a corresponding decrease in the CTF share of gasoline sales tax. The state sales tax is applied to the base sale price, including the 18 cents per gallon federal excise tax but excluding the state's 19 cents per gallon excise tax.

Annual average statewide gasoline prices ranged from \$1.22 per gallon in 1997 to \$1.06 per gallon in 1998. Gasoline prices in 1999 have ranged from a low of \$0.93 per gallon in February to \$1.29 per gallon in September.

### **Leasing versus Buying**

The increased popularity of vehicle leasing, as opposed to traditional financing, is one of the factors limiting the growth of CTF motor vehicle related sales tax revenue.

When someone buys a new vehicle for cash or through traditional financing options, the state's 6% *sales tax* is applied to the purchase price and the CTF receives a 4.65% share of that 6% tax. The sales tax on an auto or truck purchase is collected by the Department of State when the dealer submits form RD108 "Application for Michigan Title" and remits the taxes applicable to the sale.

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***The CTF receives none of the use tax applied to vehicle leases.***

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When a car or truck is leased, state *use tax* is computed on the amount of the monthly rental payment — including applicable finance charges.<sup>7</sup> The use tax is collected by the lease financing company, which may or may not be the auto dealer,

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<sup>6</sup> These current estimates are different from the original Michigan Department of Treasury estimates used for appropriations as shown in Table 1.

<sup>7</sup> Use of the term "leasing" with regard to auto leases is somewhat misleading. For the customer, and for the auto industry, auto leases are actually an alternative method of financing. In an auto lease, the buyer makes smaller monthly payments than would be required in a traditional financing plan. As a result, the buyer builds equity more slowly. Leases are essentially regular car loans with a balloon payment (assuming the buyer wants to keep the car) at the end of the lease term.

The *Cross-Sell Report* is a market research and analysis service for the auto industry. The *Cross-Sell Report* of vehicle sales for the Lansing tri-county area for September 1999 shows that of 1,200 car sales for the month, 372 (31%) were leased; and of 1,337 truck sales for the month, 468 (35%) were leased. The more expensive the vehicle, the more likely the option to lease. For sport utility vehicles, 82 of 143 sales were leases (57%); for "near luxury" cars, 50 of 89 sales were leases (56%); and for luxury cars, 62 of 127 sales were leases (49%). While this is not a statistically valid survey, it is suggestive of the place of leases in vehicle financing.

and remitted directly to the Michigan Department of Treasury. Use tax collections are split between the General Fund (67%) and the School Aid Fund (33%). The CTF receives no share of the use tax applied to vehicle leases.

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*The increased popularity of vehicle leasing, as opposed to traditional financing, is one of the factors limiting the growth of CTF motor vehicle related*

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It should be noted that private sales of used cars and trucks are also subject to use tax rather than sales tax; use tax is also assessed when vehicles which are purchased out of state are registered in Michigan.

The comparison below presents tax differences between buying and leasing a vehicle. The lower tax incurred when leasing a vehicle is, in fact, one of the attractions of leasing.

**Buying a \$30,000 Vehicle**

*Sales tax* of \$1,800 would be due at the time of purchase.

This would result in \$83.70 being credited to the CTF.

**Leasing a \$30,000 Vehicle**

Assuming a payment of \$400 per month for three years, *use tax* of \$864 (at \$24 per month) would be due over the three-year period.

No part of the \$864 would be credited to the CTF.

Available data does not currently permit the Michigan Department of Treasury to identify the amount of use tax collections applicable to vehicle leases. It is, therefore, not possible at this time to estimate the amount the CTF would receive if 4.65% of vehicle-related use tax were allocated to the CTF.

If the Legislature chose to allocate a portion of the use tax on vehicle leases to the CTF, the allocation would have to come from the General Fund share; the School Aid Fund share of the use tax is constitutionally guaranteed. Allocation of a portion of use tax revenue to the CTF would require an amendment to the Use Tax Act.

**Identification of Motor Vehicle Related Sales**

Many different types of stores sell gasoline and other automotive products. Shoppers can get motor fuel, antifreeze, oil, and spark plugs at retailers such as Meijers, K-Mart, or Quality Dairy. These retailers do not always break out automotive sales from total sales; thus, the Department of Treasury cannot readily classify sales tax receipts as "automotive" at the retail level. Instead, the Department of Treasury estimates automotive sales based on the type of business reporting the sales. Treasury uses

Standard Industry Code (SIC) classification to identify businesses by type.<sup>8</sup>

Sales of gasoline and other automotive products by non-automotive retailers (based on SIC codes) are *not* classified as automotive by the Department of Treasury and so the applicable sales tax is not credited to the CTF. Because many gas stations also sell cigarettes, candy, and other non-automotive products, part of the sales tax collected on gas station non-automotive sales apparently is credited to the CTF based on the SIC code assigned to gas stations.

Available data does not permit the Michigan Department of Treasury to determine whether this method of classifying auto-related sales results in more or less revenue credited to the CTF than the fund would otherwise be entitled to. An estimate of the fiscal effect of possible classification errors is, therefore, not currently available.

If the Legislature were to decide that identifying auto related sales is a significant problem, one possible solution would be to require retailers to maintain a record of auto-related sales. This would put the reporting burden on the retailer. It is quite likely, however, that large retailers already classify sales from bar code readers.

An alternative solution would be to require that the Department of Treasury conduct a study of auto-related sales in order to determine a reasonable estimate of auto-related sales. A similar study was required of the Department of Natural Resources and Michigan Department of Transportation by PA 221 of 1987 to support the legislative determination that 2% of gasoline sales were attributable to watercraft, off-road vehicles, and snowmobiles. Public Act 221 of 1987 directed 2% of gasoline tax collections to the Recreation Improvement Fund rather than to the MTF.

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<sup>8</sup> The Standard Industry Code is a classification system published by the U.S. Department of Commerce, National Technical Information Service.

# CTF FUNDING OPTIONS

This section provides information on a number of possible options that could be considered by the Legislature if it chose to increase CTF funding. One option would be to increase the CTF share of the motor vehicle related sales or use tax by any or all of the following means:

- ' Allocate a portion of the use tax on vehicle leases and/or used vehicle sales to the CTF;
- ' Require the Department of Treasury to study the effect of identifying motor vehicle related sales based on SIC classification, and revise this methodology if necessary; and/or
- ' Amend Section 25 of the General Sales Tax Act (MCL 205.75) to increase the CTF share of motor vehicle related sales tax.<sup>9</sup>

The Legislature could also provide additional state funding for local bus operating without increasing CTF revenue by redirecting CTF funds from other public transportation programs to local bus operating. In the FY 1999-2000 Transportation budget, \$18.7 million was appropriated from the CTF for the Intercity Passenger and Freight Transportation appropriation unit, and \$23.9 million was appropriated from the CTF for the Public Transportation Development appropriation unit. In addition, almost \$10 million was appropriated for administration of the Bureau of Urban and Public Transportation and for other CTF planning and overhead costs.

The intercity passenger and freight appropriation is primarily used for intercity rail and bus programs. Act 51 mandates that 10% of the CTF balance, after debt service and administration, be appropriated for intercity passenger and freight programs. Diversion of all or part of the 10% appropriation would require an amendment to Act 51.

A number of the line items in the public transportation development appropriation (such as specialized services, municipal credit, and bus capital) are also mandated by Act 51.

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<sup>9</sup> As shown in **Figure 4** (page 11), the General Sales Tax Act currently allocates 27.9% of 25% of the sales tax collected at 4% on the sales of motor vehicles, motor fuels, and motor vehicle parts and accessories to the CTF. In effect, this allocates 27.9% of the last \$.01 of the \$.06 motor vehicle related sales tax to the CTF. The remaining 72.1% of this last \$.01 is credited to the General Fund. (The first \$.05 of the \$.06 sales tax is split between the School Aid Fund and Revenue Sharing). Based on recent Treasury estimates, the total annual motor vehicle related sales tax collections are approximately \$215 million. Of this \$215 million, the CTF gets approximately \$60 million (at 27.9%) and the General Fund gets approximately \$155 million, (at 72.1%). If the Legislature increased the CTF share of this last \$.01 of the sales tax on motor vehicle related products, the revenue would come at the expense of the General Fund.

In addition, these line items are used to support local public transit programs. For example, the Bus Capital Program is used to match federal funds for the purchase of buses and other transit system capital equipment. To divert Bus Capital funds to local bus operating would deprive transit agencies of capital funds.

# ALTERNATIVES TO INCREASED STATE FUNDING

Increased state funding for public transportation through the local bus operating appropriation is currently dependent on CTF revenue sources. However, increased public funding does not necessarily require increased state assistance.

An alternative to increased state assistance is increased local assistance. Many public transit systems in the state are currently supported by local millages or through contributions from local government. The Legislature may conclude that increased support for public transportation services should be funded from local sources. There is, however, one additional factor to consider if local revenue sources are used to provide increased funding for public transportation.

An increased reliance on local revenue will affect the way state assistance is distributed between transit agencies. The current formula for distributing state operating assistance is a budget-based formula; it distributes state assistance as a percentage of each agency's eligible operating expenses. This formula favors those agencies that can increase local support because they can leverage local funds to obtain additional state funds.

An agency that uses increased local funds to expand service can capture additional state funds at the expense of other agencies.<sup>10</sup> For example: an urban public transit agency that increased eligible operating expense by \$2 million could capture an additional \$730,000 in state operating assistance — at the expense of the other state public transit systems.

As shown in Appendix II, since the growth cap on state reimbursement was lifted by Public Act 79 of 1997, the urban systems' share of the local bus operating appropriation has fallen in relation to non-urban systems from almost 85% in FY 1995-96 to less than 80% for FY 1999-2000 (based on budget estimates). The DDOT and SMART share of the appropriation, (as represented by the RTCC), has fallen from more than 67% of the total local bus operating appropriation in FY 1995-96 to less than 60% in FY 1999-2000 (based on budget estimates).

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<sup>10</sup> As an example, the Capital Area Transportation Authority (CATA) recently expanded service through the transfer of campus bus service from Michigan State University. CATA estimated that addition of the MSU bus service would add \$750,000 per year to CATA's eligible operating expense.



# SUMMARY

The FY 1999-2000 appropriation for the Transportation budget's Local Bus Operating line item is lower than that of either of the two prior fiscal years. While the CTF revenue sources which support this line item have continued to increase, there is less available in the CTF fund balance to support large appropriations from the fund balance, such as those made in FY 1997-98. With the CTF fund balance decreasing, state support for local bus operating in the future may have to come primarily from current CTF revenue sources.

Many public transit agencies believe that state operating assistance should reimburse 50% and 60% of eligible operating expense for urban and non-urban systems, respectively. In order for that to happen, state assistance would have to be increased by more than \$44 million for FY1999-2000. This would require an increase in CTF revenue.

This **Fiscal Focus** has identified options available if the Legislature wished to increase state funding for local bus operating assistance. It has also identified options for increasing CTF revenue and options for changing the distribution of CTF revenue in order to redirect more funding to local bus operating. Both actions will affect other programs — either through reductions to state and local highway programs, through reductions to other public transportation programs, or through a reduction in revenue directed to the General Fund.

The principal alternative to increased state funding for local bus operating assistance — increased local funding — has also been discussed in this **Fiscal Focus**. Because transit agencies are not equal in their ability to raise local funds, an increased reliance on local funding may affect the distribution of funds between public transit agencies; the current formula for distributing local bus operating assistance favors public transit agencies that can increase local funding.



# APPENDICES



## Appendix I

### LOCAL BUS OPERATING ASSISTANCE DISTRIBUTION FOR FY 1999-2000 (Based on Budget Estimates)

| <u>System</u>                        | <u>Total Eligible Expenses</u> | <u>FY 1999-2000 Distribution</u> | <u>Actual State % Share</u> |                 |
|--------------------------------------|--------------------------------|----------------------------------|-----------------------------|-----------------|
| <b>50% Group (Urban Systems)</b>     |                                |                                  |                             |                 |
| Distribution of RTCC*:               |                                |                                  |                             |                 |
| DDOT                                 | 146,408,501                    | 53,816,370                       |                             |                 |
| SMART                                | 72,689,700                     | 30,169,646                       |                             |                 |
| Other Agencies                       | <u>2,236,472</u>               | <u>857,298</u>                   |                             |                 |
| Subtotal RTCC                        | \$221,334,673                  | \$84,843,314                     |                             |                 |
| Ann Arbor TA                         | 17,532,560                     | 6,720,684                        | 38.33%                      |                 |
| Capital Area TA                      | 17,517,325                     | 6,714,844                        | 38.33%                      |                 |
| Flint MTA                            | 17,840,119                     | 6,838,580                        | 38.33%                      |                 |
| Grand Rapids ATA                     | 11,247,596                     | 4,311,495                        | 38.33%                      |                 |
| Kalamazoo                            | 6,333,065                      | 2,427,628                        | 38.33%                      |                 |
| Muskegon County                      | 1,710,918                      | 655,839                          | 38.33%                      |                 |
| Saginaw                              | <u>6,260,294</u>               | <u>2,399,733</u>                 | 38.33%                      |                 |
| Total Urban Agencies                 | \$299,776,550                  | \$114,912,117                    | 38.33%                      |                 |
| <b>60% Group (Non-urban Systems)</b> |                                |                                  |                             |                 |
| Adrian                               | 284,910                        | 130,253                          | 45.72%                      |                 |
| Alger County                         | 448,000                        | 204,813                          | 45.72%                      |                 |
| Alma                                 | 461,922                        | 211,177                          | 45.72%                      |                 |
| Alpena                               | 404,800                        | 185,063                          | 45.72%                      |                 |
| Ann Arbor                            | 212,400                        | 110,394                          | 51.97%                      | At 1997 Floor** |
| Antrim County                        | 559,000                        | 255,559                          | 45.72%                      |                 |
| Barry County                         | 468,225                        | 214,059                          | 45.72%                      |                 |
| Battle Creek                         | 2,631,427                      | 1,203,012                        | 45.72%                      |                 |
| Bay Area TA                          | 2,970,662                      | 1,358,101                        | 45.72%                      |                 |
| Bay County MTA                       | 5,001,375                      | 2,286,484                        | 45.72%                      |                 |
| Belding                              | 248,134                        | 113,440                          | 45.72%                      |                 |
| Berrien County                       | 986,735                        | 451,107                          | 45.72%                      |                 |
| Big Rapids                           | 317,521                        | 156,971                          | 49.44%                      | At 1997 Floor** |
| Blue Water TC                        | 4,369,026                      | 1,997,392                        | 45.72%                      |                 |
| Branch ATA                           | 697,750                        | 318,991                          | 45.72%                      |                 |
| Buchanan                             | 104,519                        | 49,644                           | 47.50%                      | At 1997 Floor** |
| Cadillac/Wexford TA                  | 925,750                        | 423,226                          | 45.72%                      |                 |
| Capital Area TA                      | 1,121,722                      | 512,819                          | 45.72%                      |                 |
| Caro TA                              | 377,727                        | 172,686                          | 45.72%                      |                 |
| Cass County                          | 527,700                        | 241,249                          | 45.72%                      |                 |
| Charlevoix County                    | 784,450                        | 358,628                          | 45.72%                      |                 |
| Clare County                         | 713,325                        | 326,112                          | 45.72%                      |                 |
| Crawford County TA                   | 1,021,158                      | 466,844                          | 45.72%                      |                 |
| Delta County                         | 720,000                        | 329,163                          | 45.72%                      |                 |

**LOCAL BUS OPERATING ASSISTANCE DISTRIBUTION FOR FY 1999-2000**  
(Based on Budget Estimates)

| <u>System</u>       | <u>Total Eligible Expenses</u> | <u>FY 1999-2000 Distribution</u> | <u>Actual State % Share</u> |                 |
|---------------------|--------------------------------|----------------------------------|-----------------------------|-----------------|
| Dowagiac            | 126,983                        | 58,053                           | 45.72%                      |                 |
| Eastern UPTA Bus    | 444,900                        | 203,395                          | 45.72%                      |                 |
| Eastern UPTA Ferry  | 1,825,000                      | 912,500                          | 50.00%                      | Water Ferry**   |
| Eaton County TA     | 1,508,471                      | 689,629                          | 45.72%                      |                 |
| Flint               | 687,239                        | 314,186                          | 45.72%                      |                 |
| Gladwin County      | 1,060,487                      | 484,824                          | 45.72%                      |                 |
| Gogebic County      | 289,230                        | 132,228                          | 45.72%                      |                 |
| Grand Haven         | 1,100,889                      | 503,295                          | 45.72%                      |                 |
| Grand Rapids ATA    | 212,520                        | 97,158                           | 45.72%                      |                 |
| Greenville          | 230,055                        | 105,175                          | 45.72%                      |                 |
| Hillsdale           | 253,100                        | 115,710                          | 45.72%                      |                 |
| Holland             | 1,316,100                      | 601,683                          | 45.72%                      |                 |
| Houghton            | 313,000                        | 143,095                          | 45.72%                      |                 |
| Huron County        | 1,201,662                      | 549,365                          | 45.72%                      |                 |
| Interurban TA       | 388,647                        | 177,678                          | 45.72%                      |                 |
| Ionia Dial-A-Ride   | 295,736                        | 135,202                          | 45.72%                      |                 |
| Ionia TA            | 168,098                        | 79,635                           | 47.37%                      | At 1997 Floor** |
| Iosco County        | 258,602                        | 118,225                          | 45.72%                      |                 |
| Isabella County TC  | 2,194,500                      | 1,003,262                        | 45.72%                      |                 |
| Jackson TA          | 3,834,544                      | 1,753,043                        | 45.72%                      |                 |
| Kalamazoo County    | 954,023                        | 436,152                          | 45.72%                      |                 |
| Kalkaska County     | 690,980                        | 315,896                          | 45.72%                      |                 |
| Lapeer              | 992,219                        | 453,614                          | 45.72%                      |                 |
| Lenawee County      | 364,500                        | 177,353                          | 48.66%                      | At 1997 Floor** |
| Livingston County   | 672,381                        | 326,182                          | 48.51%                      | At 1997 Floor** |
| Ludington MTA       | 761,350                        | 348,067                          | 45.72%                      |                 |
| Manistee County     | 1,370,000                      | 626,324                          | 45.72%                      |                 |
| Marquette County TA | 1,825,950                      | 834,772                          | 45.72%                      |                 |
| Marshall            | 268,860                        | 122,915                          | 45.72%                      |                 |
| Mecosta County      | 278,549                        | 158,743                          | 56.99%                      | At 1997 Floor** |
| Midland, City of    | 1,069,010                      | 488,720                          | 45.72%                      |                 |
| Midland, County     | 733,000                        | 335,106                          | 45.72%                      |                 |
| Milan               | 232,515                        | 106,299                          | 45.72%                      |                 |
| Muskegon            | 54,679                         | 38,042                           | 69.57%                      | At 1997 Floor** |
| Niles               | 475,723                        | 217,487                          | 45.72%                      |                 |
| Ogemaw County       | 284,196                        | 129,926                          | 45.72%                      |                 |
| Ontonagon County    | 357,555                        | 163,464                          | 45.72%                      |                 |
| Osceola County      | 386,172                        | 176,547                          | 45.72%                      |                 |
| Otsego County       | 685,465                        | 313,375                          | 45.72%                      |                 |

**LOCAL BUS OPERATING ASSISTANCE DISTRIBUTION FOR FY 1999-2000**  
(Based on Budget Estimates)

| <u>System</u>              | <u>Total Eligible Expenses</u> | <u>FY 1999-2000 Distribution</u> | <u>Actual State % Share</u> |
|----------------------------|--------------------------------|----------------------------------|-----------------------------|
| Roscommon County           | 1,229,901                      | 562,275                          | 45.72%                      |
| Saginaw                    | 295,356                        | 135,028                          | 45.72%                      |
| Sanilac County             | 702,724                        | 321,265                          | 45.72%                      |
| Sault Ste. Marie           | 300,328                        | 137,301                          | 45.72%                      |
| Schoolcraft County         | 280,000                        | 128,008                          | 45.72%                      |
| Shiawassee                 | 506,374                        | 231,500                          | 45.72%                      |
| SMART                      | 2,166,700                      | 990,553                          | 45.72%                      |
| Twin Cities ATA            | 1,185,023                      | 541,758                          | 45.72%                      |
| Van Buren County           | 625,621                        | 286,016                          | 45.72%                      |
| Yates Twp                  | <u>671,450</u>                 | <u>306,968</u>                   | 45.72%                      |
| Total Non-urban Agencies   | \$64,488,605                   | \$29,664,184                     | <b>46.00%</b>               |
| <b>TOTAL</b>               |                                |                                  |                             |
| <b>Urban and Non-Urban</b> | <b>\$364,265,155</b>           | <b>\$144,576,301</b>             |                             |

\*The RTCC is the Regional Transportation Coordinating Council and is the recipient of state operating assistance for DDOT, SMART, and affiliated agencies.

\*\*PA 79 of 1997 established a floor based on 1997 funding levels and provided for funding of water ferries at 50%.

*Source: Michigan Department of Transportation*



## Appendix II LOCAL BUS OPERATING ASSISTANCE DISTRIBUTION

### State Operating Assistance: Five-Year History

|                                   | <u>FY 1996</u>           | <u>FY 1997</u>           | <u>FY 1998</u>           | <u>FY 1999 (Est)</u>     | <u>FY 2000 (Est)</u>     |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Ann Arbor TA                      | \$4,693,438              | \$6,338,653              | \$6,922,847              | \$7,421,151              | \$6,720,684              |
| Capital Area TA                   | 4,026,029                | 5,106,046                | 6,797,906                | 6,674,967                | 6,714,844                |
| Flint M TA                        | 2,660,906                | 5,024,948                | 7,417,064                | 7,655,678                | 6,838,580                |
| Grand Rapids ATA                  | 3,188,098                | 3,693,865                | 4,957,563                | 5,155,386                | 4,311,495                |
| Kalamazoo                         | 1,708,406                | 1,741,116                | 2,330,885                | 2,452,948                | 2,427,628                |
| Muskegon County                   | 480,347                  | 587,728                  | 543,353                  | 661,080                  | 655,839                  |
| RTCC (DDOT & SMART)               | 70,803,699               | 75,187,821               | 100,173,192              | 92,115,129               | 84,843,314               |
| Saginaw                           | <u>854,166</u>           | <u>1,585,826</u>         | <u>2,164,075</u>         | <u>2,205,832</u>         | <u>2,399,733</u>         |
| <b>Urban Total</b>                | <b>\$88,415,089</b>      | <b>\$99,266,003</b>      | <b>\$131,306,885</b>     | <b>\$124,342,175</b>     | <b>\$114,912,117</b>     |
| <b>Non-Urban Total</b>            | <b><u>15,970,913</u></b> | <b><u>20,817,723</u></b> | <b><u>30,827,914</u></b> | <b><u>30,608,028</u></b> | <b><u>29,664,184</u></b> |
| <b>TOTAL</b>                      |                          |                          | <b>\$162,134,800</b>     | <b>\$154,950,203</b>     | <b>\$144,575,400</b>     |
| <b>State Operating Assistance</b> | <b>\$104,386,002</b>     | <b>\$120,083,726</b>     | <b>0</b>                 | <b>0</b>                 | <b>0</b>                 |

### State Assistance as a Percentage of Eligible Operating Expense

|                          | <u>FY 1996</u> | <u>FY 1997</u> | <u>FY 1998</u> | <u>FY 1999 (Est)</u> | <u>FY 2000 (Est)</u> |
|--------------------------|----------------|----------------|----------------|----------------------|----------------------|
| Ann Arbor TA             | 35.14%         | 40.00%         | 48.90%         | 43.17%               | 38.33%               |
| Capital Area TA          | 31.69%         | 40.00%         | 48.90%         | 43.17%               | 38.33%               |
| Flint MTA                | 23.68%         | 40.00%         | 48.90%         | 43.17%               | 38.33%               |
| Grand Rapids ATA         | 34.87%         | 40.00%         | 48.90%         | 43.17%               | 38.33%               |
| Kalamazoo                | 39.80%         | 41.36%         | 48.90%         | 43.17%               | 38.33%               |
| Muskegon County          | 34.50%         | 41.39%         | 57.19%         | 43.17%               | 38.33%               |
| RTCC (DDOT & SMART)      | 40.71%         | 40.00%         | 48.90%         | 43.17%               | 38.33%               |
| Saginaw                  | 24.46%         | 40.00%         | 48.90%         | 43.17%               | 38.33%               |
| <b>Urban Average</b>     | <b>38.52%</b>  | <b>40.03%</b>  | <b>48.93%</b>  | <b>43.17%</b>        | <b>38.33%</b>        |
| <b>Non-Urban Average</b> | <b>38.56%</b>  | <b>48.50%</b>  | <b>58.68%</b>  | <b>51.81%</b>        | <b>46.00%</b>        |

**NOTES:**

In FY 1996, there was significant variance between urban agencies: from 40.71% reimbursement for DDOT and SMART (through the RTCC), to 23.68% for the Flint MTA. Although not shown in this table, there were similar variances between non-urban agencies. PA 79 of 1997 eliminated the growth cap which had limited reimbursement for some agencies. As a result, starting in FY 1997, the state reimbursement percentage is generally the same for all urban agencies and non-urban agencies respectively.

### Agency % Share of Total State Assistance

|                        | <u>FY 1996</u>       | <u>FY 1997</u>       | <u>FY 1998</u>       | <u>FY 1999 (Est)</u> | <u>FY 2000 (Est)</u> |
|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Ann Arbor TA           | 4.50%                | 5.28%                | 4.27%                | 4.79%                | 4.65%                |
| Capital Area TA        | 3.86%                | 4.25%                | 4.19%                | 4.31%                | 4.64%                |
| Flint MTA              | 2.55%                | 4.18%                | 4.57%                | 4.94%                | 4.73%                |
| Grand Rapids ATA       | 3.05%                | 3.08%                | 3.06%                | 3.33%                | 2.98%                |
| Kalamazoo              | 1.64%                | 1.45%                | 1.44%                | 1.58%                | 1.68%                |
| Muskegon County        | 0.46%                | 0.49%                | 0.34%                | 0.43%                | 0.45%                |
| RTCC (DDOT & SMART)    | 67.83%               | 62.61%               | 61.78%               | 59.45%               | 58.68%               |
| Saginaw                | <u>0.82%</u>         | <u>1.32%</u>         | <u>1.33%</u>         | <u>1.42%</u>         | <u>1.66%</u>         |
| <b>Urban Total</b>     | <b>84.70%</b>        | <b>82.66%</b>        | <b>80.99%</b>        | <b>80.25%</b>        | <b>79.48%</b>        |
| <b>Non-Urban Total</b> | <b><u>15.30%</u></b> | <b><u>17.34%</u></b> | <b><u>19.01%</u></b> | <b><u>19.75%</u></b> | <b><u>20.52%</u></b> |
|                        | <b>100.00%</b>       | <b>100.00%</b>       | <b>100.00%</b>       | <b>100.00%</b>       | <b>100.00%</b>       |





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